

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 ANKARA 002336

SIPDIS

STATE FOR E, EB AND EUR/SE  
TREASURY FOR OASIA  
DEPT PLEASE PASS USTR FOR LERRION  
FAS FOR ITP/THORBURN  
USDOC FOR 5102/FOREIGN TRADE ZONES (ITA/IA)

SENSITIVE

E.O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [EFIN](#) [TU](#)  
SUBJECT: INFORMATION ON TURKISH FOREIGN FREE TRADE  
ZONES

REF: SECSTATE 72748

SENSITIVE BUT UNCLASSIFIED. PLEASE HANDLE ACCORDINGLY

[1](#)1. (U) THE TURKISH FOREIGN TRADE UNDERSECRETARIAT PROVIDED THE FOLLOWING INFORMATION KEYED TO REFTEL QUESTIONS ON TURKISH FREE ZONES (FZS) RULES AND APPLICATIONS. THE FOLLOWING IS A TRANSLATION OF FOREIGN TRADE'S WRITTEN RESPONSE:

[1](#)2. (U) BEGIN INFORMAL EMBASSY TRANSLATION:

[1](#)A. WITH THE AIM OF INCREASING AND PROMOTING EXPORT-ORIENTED INVESTMENT AND PRODUCTION, SINCE 1987 21 FREE ZONES HAVE BECOME OPERATIONAL WHICH ARE, AT THE MEDITERRANEAN REGION, MERSIN (1987), ANTALYA (1987), ADANA YUMURTALIK (1999) FREE ZONES, AT THE AEGEAN REGION, AGEAN (1990), IZMIR MENEMEN-LEATHER (1998), DENIZLI (2001) FREE ZONES, AT THE MARMARA REGION, ISTANBUL ATATURK AIRPORT (1990), ISTANBUL-LEATHER AND INDUSTRY (1995), ISE ISTANBUL INTERNATIONAL STOCK EXCHANGE (1997), ISTANBUL THRACE (CATALCA) (1998), EUROPA (1999), BURSA (2001), KOCAELI (2001) AND TUBITAK-MARMARA RESEARCH CENTER TECHNOLOGY (2002) FREE ZONES, AT THE SOUTHEAST ANATOLIA REGION GAZIANTEP (1999), MARDIN (1995) FREE ZONES, AT THE BLACK SEA REGION, TRABZON (1992), RIZE (1998), SAMSUN (1998) FREE ZONES, IN THE CENTRAL ANATOLIA AND EASTERN ANATOLIA REGIONS, KAYSERI (1998) AND EASTERN ANATOLIA (ERZURUM) (1995) FREE ZONES, RESPECTIVELY.

THERE IS ONE TYPE OF FREE ZONE BUT ALL THE ACTIVITIES SUCH AS PURCHASING-SELLING, ASSEMBLING-DISSEMBLING, WAREHOUSING, MANUFACTURING, ETC. CAN BE PERFORMED THERE. THE COUNCIL OF MINISTERS HAS THE AUTHORITY TO DETERMINE THE LOCATION AND BOUNDARIES OF THE FREE ZONES. THE COUNCIL OF MINISTERS GRANTS PERMISSION FOR THE ESTABLISHMENT AND OPERATION OF FREE ZONES TO PUBLIC INSTITUTIONS AND AGENCIES, RESIDENT OR NON-RESIDENT REAL PERSONS OR LEGAL ENTITIES.

EMBASSY COMMENT:  
MOST TURKISH FZS HAVE NOT BEEN SUCCESSFUL IN ATTRACTING SIGNIFICANT FOREIGN DIRECT INVESTMENT. THEY HAVE ALSO BEEN NET GOODS IMPORTERS FOR TURKEY. END COMMENT.

[1](#)B. AT THE TOP OF THE FREE ZONES ADMINISTRATION STANDS THE UNDERSECRETARIAT FOR FOREIGN TRADE, DIRECTORATE GENERAL OF FREE ZONES. THE DIRECTORATE GENERAL OF FREE ZONES IS RESPONSIBLE FOR SETTING PRINCIPLES AND POLICIES FOR ESTABLISHMENT, ADMINISTRATION, AND MANAGEMENT OF FREE ZONES; CONDUCTING RESEARCH, PLANNING, AND COORDINATION ACTIVITIES; DETERMINING AND EXAMINING THE ACTIVITIES IN FREE ZONES; GRANTING AND CANCELING OPERATING LICENSES TO ENGAGE IN COMMERCIAL ACTIVITIES IN FREE ZONES.

AT THE LOCAL LEVEL, THERE ARE FREE ZONE DIRECTORATES AT EACH ZONE. ZONE DIRECTORS REPORT TO THE GENERAL DIRECTOR OF FREE ZONES AND THEY ARE RESPONSIBLE FOR THE NECESSARY SUPERVISION, INSPECTION, AND IMPLEMENTATION IN THE ZONES.

THERE ARE ALSO ZONE OPERATOR OR ZONE FOUNDER AND

OPERATOR COMPANIES AT EACH ZONE THAT ARE RESPONSIBLE FOR PROVIDING OF SERVICES AND UTILITIES, BUT THAT DO NOT HOLD ANY ADMINISTRATIVE POWER.

THE ENTRY AND EXIT POINTS ARE CONTROLLED BY CUSTOMS.

1C. IN ORDER TO ENGAGE IN OPERATIONS IN FREE ZONES, AN OPERATING LICENSE SHOULD BE GRANTED BY THE UNDERSECRETARIAT FOR FOREIGN TRADE, DIRECTORATE GENERAL OF FREE ZONES. THE ASSESSMENT OF AN APPLICATION TAKES 5-7 DAYS IF THE DOCUMENTS ARE COMPLETE. AFTER APPROVAL OF THE APPLICATION, THE APPLICANT SHOULD MAKE A RENTAL OR SALE CONTRACT FOR OFFICE AND ACTIVITY SPACE. AFTER THE CONTRACT IS SENT TO THE UNDERSECRETARIAT FOR FOREIGN TRADE, THE LICENSE CAN BE GRANTED IN 3-5 DAYS.

1D. YES. IN CONTRAST TO MOST FREE ZONES IN THE WORLD, SALES INTO THE DOMESTIC MARKET ARE ALLOWED (SEE ALSO ANSWER E). THE ADVANTAGES PROVIDED IN THE FREE ZONES ARE AVAILABLE TO ALL FIRMS REGARDLESS OF THEIR ORIGIN. THERE IS NO DISCRIMINATION BETWEEN FOREIGN OR DOMESTIC INPUTS.

1E. LEGISLATIVE PROVISIONS PERTAINING TO CUSTOMS AND FOREIGN EXCHANGE OBLIGATIONS ARE NOT APPLICABLE IN THESE ZONES. SINCE THE TRADE CONDUCTED BETWEEN TURKEY AND THE FREE ZONES IS SUBJECT TO THE FOREIGN TRADE REGIME, FREE ZONE USERS CAN PURCHASE GOODS AND SERVICES FROM TURKEY. SINCE FREE ZONES ARE PART OF THE TURKEY-EU CUSTOMS TERRITORY, THE GOODS OF THIRD COUNTRY ORIGIN THAT ARE NOT IN FREE CIRCULATION ARE SENT TO THE EU COUNTRIES BY AN A.TR CERTIFICATE (NOTE: THIS IS A CUSTOMS CERTIFICATE USED WHEN IMPORTING THIRD COUNTRY GOODS TO EU COUNTRIES. END NOTE), ONLY AFTER THE CUSTOMS DUTIES ARE PAID OVER THE RATES DETERMINED IN THE COMMON CUSTOMS TARIFF.

CUSTOMS DUTIES, VALUE ADDED TAX AND OTHER LEVIES SHOULD BE PAID WHEN THE GOODS ARE LEAVING FOR THE HOME MARKET. (IN TURKEY'S CASE THIS TRANSACTION IS CALLED AN IMPORT AS THE FREE ZONES ARE DEEMED TO BE OUTSIDE OF THE CUSTOMS TERRITORY). THE VALUE IS DETERMINED ACCORDING TO THE STATUS OF THE GOODS. IF THE GOODS ARE IN FREE CIRCULATION ACCORDING TO THE TERMS OF THE CUSTOMS UNION DECISION BETWEEN TURKEY AND THE EU, THERE IS NO CUSTOMS DUTY. THE IMPORTER PAYS THE DUTIES, NOT THE MANUFACTURER. THE RATE IS DETERMINED ACCORDING TO THE STATUS OF THE GOODS. IF THE GOODS ARE IN FREE CIRCULATION, THERE IS NO CUSTOMS DUTY. HOWEVER, IF A THIRD-COUNTRY COMPONENT/INPUT IS INVOLVED THE DUTY RATE IS DETERMINED ON THE VALUE ADDED IN THE ZONE. IF THE PRODUCT IS COMPLETELY OF THIRD COUNTRY ORIGIN, THEN THE RATE IS DETERMINED USING THE VALUE OF THE FINISHED PRODUCT. THE MANUFACTURER HAS NO CHOICE OF RATES. THE SAME RULES APPLY FOR ALL IMPORTERS.

1F. THERE ARE NO SPECIAL PROVISIONS (FOR SMES OR NEW FDI).

1G. BY THE LAW NO. 5084 ON THE ENCOURAGEMENT OF INVESTMENTS AND EMPLOYMENT AND AMENDMENT OF CERTAIN ACTS, DATED 6.2.2004, NEW ARRANGEMENTS ARE MADE REGARDING TAX INCENTIVES IN THE FREE ZONES LAW NO. 3218.

EMBASSY COMMENT:

TAX INCENTIVES ARE GOVERNED BY ARTICLE 6 OF THE FREE ZONES LAW. BEFORE THE LATEST CHANGES, THIS ARTICLE STATED THAT THE PROVISIONS OF TURKISH LAWS CONCERNING TAX, DUTY, AND CHARGE LIABILITIES DID NOT APPLY IN FREE ZONES AND THAT INCOME SECURED IN FREE ZONES WAS IMMUNE FROM INCOME AND CORPORATE TAX WHEN IT WAS BROUGHT INTO OTHER PARTS OF TURKEY. THE CHANGE MADE BY ARTICLE 8 OF STATUTE 5084 REVISES ARTICLE 6 OF THE FREE ZONES LAW AND EFFECTIVELY ELIMINATES THESE TAX IMMUNITIES. UNDER THE NEW RULES:

11. TAXPAYERS WHO POSSESSED AN OPERATING LICENSE AS OF FEBRUARY 6, 2004 WILL NOT HAVE TO PAY INCOME OR CORPORATE TAX ON THEIR EARNINGS IN THE ZONE FOR THE DURATION OF THEIR LICENSE.

12. THE EARNINGS THAT TAXPAYERS ENGAGED IN MANUFACTURING ACTIVITIES IN THE ZONE SECURE FROM THE SALE OF THE

PRODUCTS WILL BE EXEMPT FROM INCOME TAX AND CORPORATE TAX UNTIL THE END OF THE YEAR IN WHICH TURKEY BECOMES A FULL MEMBER OF THE EUROPEAN UNION.

13. IF EARNINGS THAT ARE SECURED IN A FREE ZONE UNDER A CORPORATE TAX IMMUNITY ARE DISTRIBUTED (PAID AS A DIVIDEND) TO REAL-PERSON SHAREHOLDERS IN TURKEY OR TO REAL-PERSON OR LEGAL-ENTITY SHAREHOLDERS ABROAD, THEY WILL BE LIABLE FOR WITHHOLDING AT THE RATE OF 10 PERCENT.

14. THE INCOME TAX IMMUNITY APPLICABLE TO THE WAGE AND SALARY INCOME EARNED BY PERSONS EMPLOYED IN THE ZONE BY TAXPAYERS POSSESSING AN OPERATING LICENSE AS OF FEBRUARY 6, 2004 WILL REMAIN IN EFFECT UNTIL DECEMBER 31, 2008, EXCEPT THAT THIS IMMUNITY WILL CEASE IF THE OPERATING LICENSE EXPIRES BEFORE THAT DATE.

15. THE CHANGES INTRODUCED BY THE NEW LAW HAVE NO IMPACT ON VAT, PCT (PRIVATE CONSUMPTION TAX), AND CUSTOMS DUTIES. FOR THIS REASON, SALES MADE FROM TURKEY INTO FREE ZONES WILL CONTINUE TO BE TREATED AS EXPORTS AND SUCH SALES WILL NOT BE LIABLE FOR THESE TAXES. END COMMENT.

H. THERE ARE NO OTHER FINANCIAL INCENTIVES.

I. ONLY: PROVISIONS OF MUNICIPALITY LAW NR. 1580 EXCEPT PARAGRAPHS 5, 22, 25, 32 AND 47 OF ARTICLE 15; PASSPORT LAW NR. 5682; LAW NR. 5683 FOR FOREIGNERS TRAVELING AND RESIDING IN TURKEY AND LAW NR. 2007 ON PROFESSIONS AND SERVICES ALLOCATED FOR TURKISH CITIZENS INCLUDING ITS ANNEXES AND AMENDMENTS; FOREIGN INVESTMENT AND ENCOURAGEMENT LAW NO 6224; LAW NR. 2677 ON THE IMPLEMENTATION OF DUTIES AND SERVICES AT THE CIVILIAN AIRPORTS, PORTS AND BORDER GATES ARE NOT APPLICABLE.

J. THE ADVANTAGES PROVIDED IN THE FREE ZONES ARE AVAILABLE TO ALL FIRMS REGARDLESS OF THEIR ORIGIN. THERE ARE NO LOCAL CONTENT, EXPORT OR OWNERSHIP REQUIREMENTS IN THE TURKISH FREE ZONES. THIS RULE APPLIES IN THE CUSTOMS TERRITORY AS WELL.

COMMENT  
-----

13. (U) THE GOT'S RATIONALE FOR CUTTING BACK FREE ZONE TAX INCENTIVES - A MOVE STRONGLY ENCOURAGED BY THE IMF AND WORLD BANK -- IS TO ELIMINATE A SOURCE OF UNFAIR COMPETITION, GAIN TAX REVENUE AND COMPLY WITH EU DIRECTIVES. THERE IS ALSO THE PERCEPTION IN PARTS OF THE GOT, PARTICULARLY OUTSIDE THE FOREIGN TRADE UNDERSECRETARIAT, THAT THE FZS HAVE DONE MORE TO FACILITATE IMPORTS THAN EXPORTS.

14. (SBU) MANAGEMENT OF ONE OF THE MORE SUCCESSFUL FREE ZONES - THE AEGEAN FZ OUTSIDE IZMIR - TOLD ECONOFF IN MARCH THAT THE DRAMATIC CUTBACK IN INCENTIVES WOULD HURT BOTH EXISTING INVESTORS IN THE FZ AS WELL AS SERIOUSLY COMPROMISING EFFORTS TO ATTRACT NEW INVESTORS. MANAGEMENT INDICATED THAT IT WAS CONSIDERING LEGAL ACTION TO COMPEL THE GOT TO CANCEL THE RECENT LEGAL AMENDMENTS OR PROVIDE COMPENSATION. HOWEVER, THE DIRECTOR GENERAL OF FREE ZONES AT THE TURKISH FOREIGN TRADE UNDERSECRETARIAT HAS SAID THAT THE FZ OPERATORS AND TENANTS HAD NO LEGAL RIGHTS TO THESE INCENTIVES OR TO COMPENSATION FOR THEIR CANCELLATION.

15. (U) POST PLANS TO REPORT FURTHER ON FZS IN THE UPCOMING INVESTMENT CLIMATE STATEMENT. IN THE INTERIM, WASHINGTON AGENCIES MAY CONTACT DEFNE SADIKLAR ARSLAN, ECONOMIC SPECIALIST, WITH ANY FURTHER QUESTIONS ON FREE ZONES, EMAIL: SADIKLARD@STATE.GOV, PHONE: 312 455 5555, EXTENSION 2257.

EDELMAN